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TO RUEHC/SECSTATE WASHDC PRIORITY 2227
INFO RUEHAC/AMEMBASSY ASUNCION 6491
RUEHBO/AMEMBASSY BOGOTA 3813
RUEHBR/AMEMBASSY BRASILIA 7693
RUEHB/AMEMBASSY BUENOS AIRES 4939
RUEHCV/AMEMBASSY CARACAS 2182
RUEHPE/AMEMBASSY LIMA 2271
RUEHMD/AMEMBASSY MADRID 3285
RUEHMN/AMEMBASSY MONTEVIDEO 4370
RUEHQ/AMEMBASSY QUITO 4822
RUEHSG/AMEMBASSY SANTIAGO 9413
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RHEHNSC/NSC WASHINGTON DC
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RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS LA PAZ 000189

SIPDIS

SENSITIVE
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STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)
SUBJECT: HYDROCARBONS INVESTORS STILL CAUTIOUS

REF: A. 2006 LA PAZ 2880
[B.](#) 2006 LA PAZ 1248
[C.](#) 2006 LA PAZ 2943

Summary

[¶](#)1. (SBU) According to Bolivian state oil company YPFB's Presidential Adviser Evert Villena, four natural gas production companies, including two with U.S. investment, were awarded Argentine market share in a mid-January bidding process held to drum up company commitments to fulfill the gas supply contract signed with Argentina in October 2006 (ref A). YPFB will hold a second bid in six months, in hopes of obtaining the additional commitments needed to meet its obligations to Argentina. The four companies that made supply offers agreed to minimal additional investments. YPFB is being restructured, and the company hopes to launch its new, improved image in March. A government committee will choose an international investment bank by the end of January to evaluate the worth of the shares of the five companies destined by the May 1, 2006 nationalization decree for GOB majority ownership (ref B). YPFB expects to make the companies purchase offers in May 2007, to coincide with the one-year anniversary of the nationalization decree. End summary.

Bidding to Supply Argentina

[¶](#)2. (SBU) Yacimientos Petroliferos Fiscales Bolivianos' (YPFB, Bolivia's state-owned oil company) Presidential Adviser Evert Villena told Econoffs on January 23 that four natural gas production companies -- U.S.-owned Vintage, partially U.S.-owned Chaco, Pluspetrol, and Dong Won -- had been

assigned Argentine market share through a mid-January bidding procedure. YPFB orchestrated the process in order to receive company commitments to fulfill the gas supply contract signed with Argentina in October 2006 to supply an additional 20 million cubic meters of gas per day by 2010 (ref A). The four companies agreed to supply 10.4 million cubic meters in 2010, increasing to a maximum of 11.1 million in 2011, and then declining gradually until the end of the Argentine contract in 2026. YPFB will hold a second bid in six months, in hopes of obtaining the additional commitments needed to meet its obligations to Argentina. The fulfillment of the contract depends on the construction of a new pipeline between the two countries -- a large uncertainty in the equation -- which Villena said he would discuss in a January 25 meeting in Santa Cruz.

¶13. (SBU) According to Villena, the four companies that made supply offers agreed to minimal additional investments. He indicated that the companies which had received market share were companies that did not need to make substantial investments to increase their production and were looking for markets. The four largest players in Bolivia -- Petrobras, Repsol, British Gas, and Total -- would need to invest significant sums to increase production to supply Argentina and were apparently not ready to make such commitments given uncertainties about the sector's future and the construction of the pipeline.

YPFB's Restructuring

¶14. (SBU) Villena said that YPFB is in "intensive care" and is being restructured into an efficient corporation. The company hopes to launch the new, improved YPFB in March. Villena explained that YPFB is now receiving tax revenue directly from the companies based on the May decree and the new operating contracts (ref C), but that YPFB's lack of accountants and lack of legal provisions regarding how to distribute the money (other tax funds pass through the national treasury and distribution is regulated) are hindering YPFB's ability to use the funds. A new YPFB website is under construction, which will contain detailed information about company operations and a platform for the public to ask YPFB staff questions.

Five Company Take-Over

¶15. (SBU) Villena said that a government committee will choose an international investment bank within ten days to evaluate the worth of the shares of the five companies destined by the May 1, 2006 decree for GOB majority ownership -- Transredes (partially U.S.-owned pipeline operator), Chaco (partially U.S.-owned production company), Andina (Spanish/Argentine production company), Petrobras Bolivia Refining (Brazilian refineries), and the Bolivian Hydrocarbons Logistics Company (German/Peruvian storage company) (ref B). YPFB anticipates making the companies purchase offers in May 2007, to coincide with the one-year anniversary of the government's nationalization decree. Villena noted that YPFB's position regarding operating control of the companies is flexible, but that YPFB wants to brand the companies as its own.

Comment

¶16. (SBU) The future of the Bolivian hydrocarbons sector remains unclear. With the signing of new operating contracts last October and the first round of bidding for rights to sell gas to Argentina, companies have thus far made few investment commitments. The next round of bidding in six months should be more telling of the large players' -- Petrobras', British Gas', and Repsol's -- investment intentions. The long-term future of the sector, and Bolivia's ability to meet its export commitments, will depend

on these companies' decisions. End comment.
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